

INFORM. INSPIRE. DEVELOP CIVIC LEADERS.



THE POLICY CIRCLE

FREE ENTERPRISE & ECONOMIC FREEDOM



➤ WHAT IS FREE ENTERPRISE? ◀

FREE ENTERPRISE REFERS TO AN ECONOMY IN WHICH “THE MARKET DETERMINES PRICES, PRODUCTS, AND SERVICES RATHER THAN THE GOVERNMENT. BUSINESSES AND SERVICES ARE FREE OF GOVERNMENT CONTROL.” NOBEL-WINNING ECONOMIST FRIEDRICH HAYEK DESCRIBED A FREE ENTERPRISE SYSTEM NOT AS UNPLANNED, BUT RATHER THAT “PLANNING AND REGULATION ARISE FROM THE COORDINATION OF DECENTRALIZED KNOWLEDGE AMONG INNUMERABLE SPECIALISTS, NOT BUREAUCRATS.”

ECONOMIC FREEDOM ALLOWS INDIVIDUALS TO BUY WHAT THEY WANT, CHOOSE THEIR OCCUPATION, EMPLOYER, AND JOB LOCATION. IT ALLOWS BUSINESSES TO CHOOSE WHICH WORKERS TO HIRE, WHICH PRODUCTS TO PRODUCE, AND HOW MUCH TO CHARGE.



IN A FREE ENTERPRISE SYSTEM, INDIVIDUALS “PURSUE WHAT THEY BELIEVE TO BE BEST FOR THEM.” THE GOVERNMENT’S ROLE, THEN, IS TO ALLOW INDIVIDUALS TO MAKE THE MOST OF THEIR ECONOMIC FREEDOM.

DR. DEIDRE MCCLOSKEY WRITES IN THE WALL STREET JOURNAL THAT THE IMPROVEMENT IN THE LAST 200 YEARS IN TERMS OF THE AVAILABILITY OF GOODS AND SERVICES IS “STUNNING,” AND THAT REAL INCOME HAS INCREASED BY A FACTOR OF 10 IN COUNTRIES AROUND THE WORLD. DURING THAT SAME TIME PERIOD, SHE NOTES, COUNTRIES LIKE JAPAN, SWEDEN, AND THE U.S. THAT FULLY EMBRACED FREE TRADE SAW REAL INCOME INCREASE BY A FACTOR OF 30.

SMALL BUSINESSES EMPLOY ALMOST HALF (47%) OF U.S. WORKERS AND DRIVE 45% OF U.S. GDP, BUT ONLY ABOUT HALF OF ALL SMALL BUSINESS ESTABLISHMENTS SURVIVE FIVE YEARS OR LONGER, AND ONLY ONE-THIRD MAKE IT PAST TEN YEARS.

ECONOMIC FREEDOM ALLOWS INDIVIDUALS TO “PURSUE WHAT THEY BELIEVE TO BE BEST FOR THEM,” AS LONG AS THEY ARE NOT INFRINGING UPON THE RIGHTS OF OTHERS. THIS PROVIDES BOTH QUANTITATIVE AND QUALITATIVE BENEFITS FOR ALL. NATIONS WITH HIGHER LEVELS OF ECONOMIC FREEDOM HAVE AN AVERAGE PER CAPITA GDP ROUGHLY SIX TIMES GREATER THAN THOSE WITH LOWER LEVELS OF ECONOMIC FREEDOM, AS WELL AS HIGHER LIFE EXPECTANCY, POLITICAL AND CIVIL LIBERTIES, GENDER EQUALITY, AND HAPPINESS.



➤ GOVERNMENT INVOLVEMENT ◀



THE GOVERNMENT'S ROLE IS TO ALLOW INDIVIDUALS TO MAKE THE MOST OF THEIR ECONOMIC FREEDOM BY DEFINING AND ENFORCING THE RULES OF SOCIETY, SUCH AS PROTECTING PEOPLE'S RIGHT TO OWN PROPERTY AND SETTLING DISPUTES THAT RESULT FROM CONFLICTING INTERPRETATIONS OF THE RULES. THE GOVERNMENT PLAYS THE ROLE OF A RULES COMMITTEE TO DETERMINE THE RULES; AN OFFICIAL, TO ENFORCE THE RULES; AND A COMMISSIONER, TO SETTLE DISPUTES. JUST AS AN UMPIRE WOULDN'T PLAY SHORTSTOP, THE GOVERNMENT'S ROLE IS ALSO LIMITED TO OFF THE FIELD.

THERE ARE NO ECONOMIES THAT ARE PURE, FREE ENTERPRISE SYSTEMS. SOMETIMES, THE GOVERNMENT DOES STEP INTO PLAY TO PROVIDE CERTAIN GOODS AND SERVICES THE MARKET WOULD HAVE TROUBLE PRODUCING ON ITS OWN, SUCH AS NATIONAL DEFENSE. THE FEDERAL RESERVE, THE CENTRAL BANK OF THE U.S., WHICH IS INDEPENDENT OF THE GOVERNMENT, ALSO PLAYS AN IMPORTANT ROLE IN MAINTAINING A STABLE ECONOMY.

A SUBSIDY IS A BENEFIT GIVEN TO AN INDIVIDUAL, BUSINESS, OR INSTITUTION, USUALLY BY THE GOVERNMENT. IT IS USUALLY IN THE FORM OF A CASH PAYMENT OR A TAX REDUCTION. THE SUBSIDY IS TYPICALLY GIVEN TO REMOVE SOME TYPE OF BURDEN, AND IT IS OFTEN CONSIDERED TO BE IN THE OVERALL INTEREST OF THE PUBLIC, GIVEN TO PROMOTE A SOCIAL GOOD OR AN ECONOMIC POLICY.

TAXES ARE MANDATORY CONTRIBUTIONS LEVIED ON INDIVIDUALS OR CORPORATIONS BY A GOVERNMENT ENTITY—WHETHER LOCAL, REGIONAL OR NATIONAL. TAX REVENUES FINANCE GOVERNMENT ACTIVITIES, INCLUDING SUCH PUBLIC WORKS AND SERVICES AS ROADS AND SCHOOLS, OR PROGRAMS LIKE SOCIAL SECURITY AND MEDICARE. IN ECONOMICS, TAXES FALL ON WHOMEVER PAYS THE BURDEN OF THE TAX, WHETHER THIS IS THE ENTITY BEING TAXED, SUCH AS A BUSINESS, OR THE END CONSUMERS OF THE BUSINESS'S GOODS.



➤ EGALITARIANISM & CENTRAL PLANNING ◀

CENTRAL PLANNING LIMITS THE INDIVIDUAL AND ECONOMIC FREEDOM THAT ARE KEY TO FREE ENTERPRISE SYSTEMS. CRITICS MAINTAIN THIS IS THE CASE BECAUSE BUSINESSES CANNOT FREELY CHOOSE HOW MUCH TO PRODUCE, WORKERS CANNOT FREELY CHOOSE WHERE TO DEDICATE THEIR LABOR, AND CONSUMERS CANNOT FREELY CHOOSE WHICH PRODUCTS THEY WANT TO BUY. THIS MEANS MANY INDIVIDUALS WILL NOT HAVE ACCESS TO THE GOODS AND SERVICES THEY MAY WANT OR NEED BECAUSE NO ONE IS ALLOWED TO PRODUCE THESE THINGS AND IT IS NOT WHERE THE RESOURCES HAVE BEEN ALLOCATED.

CENTRAL PLANNING ALSO SKEWS THE PRICE SYSTEM, "THE LINK THAT CONNECTS CONSUMERS, PRODUCERS AND MARKETS." IN A FREE ENTERPRISE SYSTEM, THE PRICE OF A GOOD OR SERVICE IS BASED ON ITS SCARCITY (THE SUPPLY) AND HOW MUCH PEOPLE VALUE IT (DEMAND). THIS INFORMATION IS VITAL TO MAKING ECONOMIC DECISIONS BY TELLING PRODUCERS HOW MUCH TO PRODUCE AND WHAT TO CHARGE.

TOO MUCH CONTROL BY A CENTRAL AUTHORITY CAN RESULT IN POLICIES ON PRICING, INFLATION, INTEREST RATE CONTROLS, FOREIGN EXCHANGE CONTROLS, AND ARTIFICIAL EXCHANGE RATES THAT DAMAGE THE MARKET, AS WAS THE CASE IN LATIN AMERICA AND AFRICA IN THE 1980S AND 1990S.



➤ REGULATIONS ◀



UNNECESSARY REGULATIONS GENERATE COSTLY AND TIME-CONSUMING BURDENS THAT WEIGH ON INDIVIDUALS AND THEIR BUSINESSES. STARTING AND RUNNING A BUSINESS IS HARD ENOUGH AS IT IS; ACCORDING TO THE SMALL BUSINESS ADMINISTRATION, ABOUT HALF OF ALL SMALL BUSINESS ESTABLISHMENTS SURVIVE FIVE YEARS OR LONGER, AND ONLY ONE-THIRD MAKE IT PAST TEN YEARS. BURDENSOME REGULATIONS MAKE IT MORE DIFFICULT TO START BUSINESSES OR PROJECTS BY INCREASING THE COST OF PRODUCTION, AND REDUCING THE NET RETURN AND INCENTIVES OF PRODUCERS.

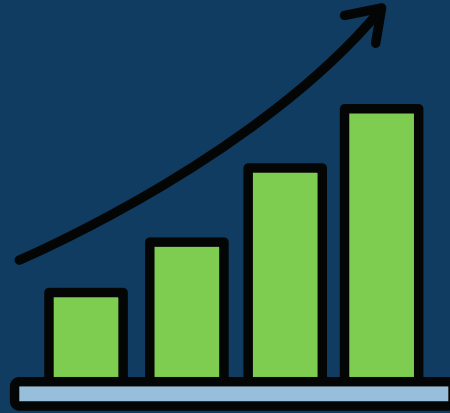
WHAT MAKES REGULATIONS EVEN MORE DIFFICULT IS THE LACK OF STANDARDIZATION. RANDY FIFIELD OF FIFIELD COMPANIES EXPLAINS HOW IN REAL ESTATE, FOR EXAMPLE, "STATE BY STATE MANDATES VARY GREATLY," WHICH FORCES PROJECTS TO BE DONE ON A CASE BY CASE BASIS. THIS APPLIES EVEN TO THOSE WITHIN THE SAME STATE, AS "THERE ARE NO UNIVERSAL NORMS TO DISTINGUISH CITY BY CITY MANDATES." WHEN ENTREPRENEURS NEED TO SPEND THEIR TIME AND RESOURCES DISCERNING AND ADHERING TO REGULATIONS FROM RENT CONTROL TO ZONING ORDINANCES, IT LEAVES FEWER RESOURCES AVAILABLE FOR PROJECTS, MAKING THEM HARDER TO COMPLETE OR EVEN PREVENTING THEM FROM GETTING OFF THE GROUND. SUCH DETERRENTS TO INVESTMENT HURT INDIVIDUALS AND THE OVERALL ECONOMY.

➤ MARKET FAILURES & EXTERNALITIES ◀



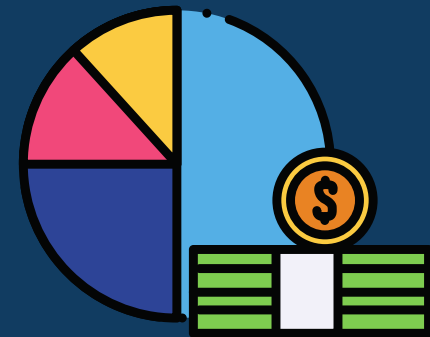
A MARKET FAILURE IS “A PROBLEM THAT CAUSES THE MARKET ECONOMY TO DELIVER AN OUTCOME THAT DOES NOT MAXIMIZE EFFICIENCY.” ONE EXAMPLE IS WHEN THE QUANTITY OF SUPPLY DOES NOT EQUAL THE QUANTITY DEMANDED.

EXTERNALITIES OCCUR “WHEN ONE PERSON’S ACTIONS AFFECT ANOTHER PERSON’S WELL-BEING AND THE RELEVANT COSTS AND BENEFITS ARE NOT REFLECTED IN MARKET PRICES.”



A POSITIVE EXTERNALITY OCCURS “WHEN THERE IS A POSITIVE GAIN ON BOTH THE PRIVATE LEVEL AND SOCIAL LEVEL,” SUCH AS WHEN RESEARCH AND DEVELOPMENT INCREASES A COMPANIES’ PROFITS WHILE ALSO ADDING KNOWLEDGE TO SOCIETY.

A NEGATIVE EXTERNALITY, “WHEN THE SOCIAL COSTS OUTWEIGH THE PRIVATE COSTS,” CAN RESULT, FOR EXAMPLE, WHEN POLLUTION FROM A FACTORY NEGATIVELY AFFECTS THE ENVIRONMENT AND THE HEALTH OF THOSE LIVING NEARBY. COSTS OF NEGATIVE EXTERNALITIES ARE NOT OFTEN INCLUDED IN MARKET PRICES, PROMPTING MANY TO “ADVOCATE FOR GOVERNMENT INTERVENTION TO CURB NEGATIVE EXTERNALITIES THROUGH TAXATION AND REGULATION,” SUCH AS A CARBON TAX OR ENVIRONMENTAL OR HEALTH-RELATED LEGISLATION.



➤ WHAT YOU CAN DO ◀

MEASURE -

DO YOU KNOW THE STATE OF ECONOMIC GROWTH AND ECONOMIC FREEDOM IN YOUR COMMUNITY OR STATE? WHAT ARE YOUR STATE'S LAWS INVOLVING TAXES OR REGULATIONS FOR BUSINESSES AND ENTREPRENEURSHIP, AND HOW DO THEY COMPARE TO REGULATIONS IN OTHER STATES? HOW MUCH HAS YOUR STATE GIVEN IN SUBSIDIES? DOES YOUR MUNICIPALITY DISCLOSE SUBSIDIES?



IDENTIFY -

WHO ARE THE MEMBERS OF YOUR LOCAL CHAMBER OF COMMERCE? WHO ARE THE ENTREPRENEURS AND SMALL BUSINESSES IN YOUR COMMUNITY? WHAT STEPS HAVE YOUR ELECTED AND APPOINTED OFFICIALS TAKEN TO MAKE YOUR STATE OR COMMUNITY MORE BUSINESS-FRIENDLY? WHICH FEDERAL RESERVE DISTRICT IS YOUR STATE PART OF?



REACH OUT -

FIND ALLIES IN YOUR COMMUNITY OR IN NEARBY TOWNS AND ELSEWHERE IN THE STATE. FOSTER COLLABORATIVE RELATIONSHIPS WITH LOCAL BUSINESSES, COMMUNITY ORGANIZATIONS, AND SCHOOL BOARDS.

PLAN -

SET MILESTONES BASED ON YOUR STATE'S LEGISLATIVE CALENDAR OR LOCAL COMMUNITY CALENDAR.



EXECUTE -

GET TO KNOW YOUR LOCAL BUSINESS OWNERS AND ASK THEM HOW LOCAL AND STATE REGULATIONS AFFECT THEM. GET STARTED ON YOUR OWN PASSION PROJECTS. THE U.S. CHAMBER OF COMMERCE AND THE SMALL BUSINESS ADMINISTRATION HAVE RESOURCES FOR STARTING, RUNNING, AND GROWING YOUR BUSINESS.

